

# Personal tax and trust planning

## AF1: 2023–24 edition

### Web update 1: 16 January 2024

Please note the following update (amendments in **bold**) to your copy of the **AF1** case study workbook:

#### National Insurance contributions (NICs)

As announced in the November 2023 Autumn Statement:

- The main rate of employee Class 1 NICs has been cut from 12% to 10% from 6 January 2024.
- Directors have an annual earnings period, so a blended employee rate of 11.5% will apply for 2023/24 (this rate should also be used for employees if calculating NICs on an annual basis).
- There is no change for employer Class 1 NICs.

Therefore, the following content should be updated as highlighted:

#### Case study 1, Questions, page 1/3:

- (b) In regard to National Insurance contributions (NICs):
- (i) Calculate Charles's employee Class 1 NICs liability for 2023/24 (you should use an annual basis of calculation **along with the blended rate of NIC**).

#### Case study 1, Model answer for case study, page 1/8:

- (b) In regard to National Insurance contributions (NICs):
- (i) Calculate Charles's employee Class 1 NICs liability for 2023/24 (you should use an annual basis of calculation **along with the blended rate of NIC**).

	£
$£12,570 \times 0\%$	0
$(£50,270 - £12,570) = £37,700 \times 11.5\%$	<b>4,335.50</b>
$(50,400 + £6,000 - £50,270) = £6,130 \times 2\%$	122.60
<b>Total NICs</b>	<b>4,458.10</b>

[...]



## Reinforce

- Class 1 NICs are paid by both the employee (primary contributions) and the employer (secondary contributions). For 2023/24, the employee does not pay NICs on the first £12,570 of annual earnings. **However, the calculation of employee NICs is complicated by a change to the NIC rates from 6 January 2024.**
  - **On 22 November 2023, the Chancellor announced a cut to the rate of employee Class 1 NICs from 12% to 10% from 6 January 2024. Directors have an annual earnings period, so a blended employee rate of 11.5% applies for 2023/24. For the sake of simplicity, this is the rate used in the case study.**
  - Charles will pay 12% (**for nine months**) and 10% (**for three months**) on the amount of his salary between £12,570 (the primary threshold) and £50,270 (the upper earnings limit). Earnings above £50,270 will be charged at 2%. Charles's salary is paid monthly so strictly, his NICs should be calculated monthly. The monthly lower earnings thresholds are £1,048 and £4,189, respectively.
  - **Calculated on a strict monthly basis, Charles's NICs for 2023/24 would have been:**
    - **April to December 2023: £376.92 at 12%, with a further £0.22 at 2% – a monthly total of £377.14.**
    - **January to March 2023: £314.10 at 10%, with a further £0.22 at 2% – a monthly total of £314.32.**
    - **March 2024: An additional £120 (£6,000 at 2%) will be paid on the bonus.**
- This results in an annual figure of  $(£377.14 \times 9) + (£314.32 \times 3) + £120 = £4,457.22$ . The small difference with the annually calculated figure of **£4,458.10** is due to rounding.
- Self-employed persons are liable to both class 2 and 4 NICs. Class 2 is charged at a flat rate of £3.45 a week. Class 4 contributions are earnings-related and charged at 9% on profits between £12,570 (the lower profits limit) and £50,270 a year (the upper profits limit). Profits above this amount are charged at 2%. Class 4 NICs are always calculated on an annual basis.

## Notes

- This change will be examined from 22 February 2024.
- This update has been incorporated into the digital copy of the case study workbook, available on RevisionMate.